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RUCPDO/DEPT OF COMMERCE WASHDC
RULSDMK/DEPT OF TRANSPORTATION WASHDC
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SUBJECT: BANKING SECTOR EXPANDS; PRIVATE EQUITY "DOES" DEVELOPMENT

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¶1. On July 17, Trina Rand, International Economist, and Michael Ruffner, Director, Office of Technical Assistance, U.S. Department of Treasury, met with a series of representatives of the financial sector to discuss macroeconomic health and developments in the banking sector since consolidation. Consumer banking was expanding to middle- and lower-income populations. Private equity funds were increasingly used as a source of capital for infrastructure development projects. End summary.

Banks Are Healthy; Expand Consumer Activities

¶2. Henry Semenitari, Executive Director, Commercial Banking, First City Monument Bank (FCMB) and Ebenezer Olufowose, Executive Director, Investment Banking, Access Bank, underscored the progress in the banking industry as a result of consolidation. The regulatory system had grown more specialized and banks were able to focus on their core competencies. New partnerships and alliances with offshore banks had allowed local banks to gain expertise from their foreign partners. In a subsequent meeting, Osaze Osifo, Chief Executive Officer (CEO), Travant Capital, said there was almost a guarantee banks would succeed because they were now too big to fail. Osifo praised Central Bank of Nigeria (CBN) Governor Charles Soludo on the way consolidation had been regulated.

¶3. With increased capital, banks were expanding their consumer activities. One area of growth for FCMB has been the housing sector. FCMB launched a major project financing and home mortgage scheme in collaboration with the U.S. Overseas Private Investment Corporation (septel). Banks were also supporting local industries such as housing construction and oil services companies. Consumer banking would continue to expand, said Semenitari. A catalyst for this would be Credit Registry, Nigeria's first private credit bureau, which was established with the participation of a consortium of banks.

¶4. Semenitari said consumer banking was aimed at previously disenfranchised segments of the population. (Note: The International Finance Corporation estimated that less than 20 percent of the population has access to a bank account). For example, banks were

now specializing in auto loans. Semenitari and Olufowose emphasized this process was market-driven. Banks would continue to consolidate, and they expected Nigeria could ultimately support 14 large banks. (Note: In an Abuja meeting with Trina Rand and Michael Ruffner, Central Bank of Nigeria Governor Soludo said future changes in the banking sector would be market-driven).

Banks Need More Skilled Managers

¶6. Due to the changes in the sector, banks were suffering from a lack of staff with the requisite skills to manage fund pools. Banks had established training schools to address this and were getting involved in setting curricula in primary and secondary schools. They would also focus on business and economic departments at a number of universities to create "centers of excellence". Osifo said Travant Capital was investing in schools, following the model of the African Leadership Academy, a pan-African secondary institution outside of Johannesburg.

Private Equity And Infrastructure Development

¶7. Osifo discussed Travant Capital, a private equity arm of Oando Holdings. Travant was in the process of raising USD 300 million for its first private equity fund. With a focus on West and Central Africa, Travant would invest in growth, consolidation, and efficiency improvement opportunities in the energy, financial services, transportation, logistics and telecommunications sectors. Of particular interest to Osifo in Nigeria were energy and transportation, as these were the greatest impediments to economic development.

¶8. The representatives discussed the Africa Finance Corporation (AFC), recently established by the CBN as a complement to the

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African Development Bank. Olufowose said Access Bank had invested USD 20 million in the AFC. The Corporation would drive profit-oriented development projects in Africa, focusing on infrastructure and long-term projects. According to an information memorandum issued by the CBN, the authorized share capital for the AFC was USD two billion. A private placement was expected to yield USD one billion, 700 million of which was invested by Nigerian banks. Investment in the AFC would be eligible for tax exemptions, market entry formalities and regulatory requirements. Olufowose said Access Bank had invested USD 200 million and was optimistic about the AFC's impact on the development of infrastructure in Africa. Osifo was less sanguine, saying banks had been cajoled into investing in the Corporation.

¶10. Asked how the U.S. government could assist Nigeria, Osifo said the West should not provide aid. Rather, other models of development assistance had already proved more effective in other areas of the world, such as microfinance schemes. He emphasized the West needed to reevaluate local needs if it meant to keep pace with Chinese investment in Nigeria.

¶11. Trina Rand and Michael Ruffner cleared this cable.